Schmidt v. Commissioner, 28 T.C. 367 (1957)

The Tax Court will not abate penalties for failure to file a timely tax return unless the taxpayer demonstrates that the failure was due to reasonable cause and not willful neglect.

Summary

The case concerns Babetta Schmidt, who was assessed penalties for failing to file timely income tax returns for several years. Schmidt claimed she relied on an accountant for tax preparation and the delays were due to his illness, thus constituting reasonable cause. The Tax Court held that Schmidt was liable for the penalties because she did not demonstrate reasonable cause for the failure to file. The court found that Schmidt was aware of her obligation to file and, despite using an accountant, did not ensure that returns were filed. The court found that there was no showing of reasonable cause for the failures to file. The case highlights the taxpayer's responsibility to file, even when using a tax preparer, and the narrow interpretation of the "reasonable cause" exception to penalties for late filing.

Facts

Babetta Schmidt, born in 1874, received rental income after her husband's death. She hired an accountant to prepare her tax returns. The accountant prepared Forms 1040 ES (declaration of estimated tax) for Schmidt, which she filed on time. Schmidt did not file timely income tax returns (Form 1040) for the years 1944, 1946, and 1948 through 1949 and 1951. The accountant brought the returns for Schmidt to sign in 1952, attributing the delay to his illness. Schmidt filed delinquent returns on June 30, 1952. The IRS determined deficiencies and additions to tax for failure to file, prompting Schmidt to dispute these additions.

Procedural History

The Commissioner determined deficiencies in income tax and assessed penalties under 26 U.S.C. § 291(a) for Schmidt's failure to file timely returns. Schmidt contested the penalties in the U.S. Tax Court.

Issue(s)

1. Whether the Tax Court could make a determination about a claimed credit for 1945 based on an unapplied payment of estimated tax from 1944.

2. Whether the petitioner is subject to the 25 percent additions to tax for failure to file timely returns.

Holding

1. No, because the Tax Court had no jurisdiction over the 1944 tax year and no basis

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for determining an overpayment for 1945.

2. Yes, because Schmidt's failure to file timely returns was not due to reasonable cause.

Court's Reasoning

The court first addressed a technical issue related to an alleged credit for overpayment from a prior year, which it determined it could not decide due to jurisdictional limitations. Regarding the penalties for failure to file, the court focused on the

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